Saskatchewan Pension Annuity Fund

Annual Report for 2015-2016

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Government of Saskatchewan

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This annual report is available in electronic format at **www.peba.gov.sk.ca**

Letters of Transmittal

Her Honour, the Honourable Vaughn Solomon Schofield,
Lieutenant Governor of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2016.

Kevin Doherty
Minister in Charge
Saskatchewan Pension Annuity Fund

The Honourable Kevin Doherty
Minister in Charge
Saskatchewan Pension Annuity Fund

Sir:

On behalf of the Saskatchewan Pension Annuity Fund Board, I have the honour to present herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2016.

Dave Wild
Chair

Introduction

The Saskatchewan Pension Annuity Fund (SPAF) was created for members of the Public Employees Pension Plan (PEPP) who want to purchase an annuity as their source of retirement income.
The Saskatchewan Pension Annuity Fund Act governs SPAF.

The Fund provides members of PEPP with a life annuity paid for the life of the annuitant based on the:

- market conditions at the time the annuity is purchased;
- amount used to purchase the annuity;
- annuitant's and annuitant's spouse's age;
- guarantee period; and
- survivor benefit.

Once an annuity has been issued, neither the annuitant nor the Plan can change terms of the agreement.

Any deficiencies in the Plan are paid out of the General Revenue Fund and are the responsibility of the Government of Saskatchewan.

The annual operating expenditures associated with the Fund's administration are paid to the Public Employees Benefits Agency (PEBA) Revolving Fund and are charged to SPAF.

Saskatchewan Pension Annuity Fund Board

Effective April 1, 2005, the Saskatchewan Pension Annuity Fund Board (the Board) was established to administer the Fund. The Board, which consists of three members appointed by the Minister of Finance, is responsible for the administration of *The Saskatchewan Pension Annuity Fund Act*.

At March 31, 2016, the Board was composed of the members listed in *Table 1.1*.

Saskatchewan Pension Annuity Fund Board Members	
Dave Wild	Chair
Lori Taylor	Member
Kevin Banman	Member

Table 1.1

Members of the Board receive no compensation for the performance of their roles as Board members. They are remunerated for reasonable expenses for attending Board meetings and other functions in their capacity as Board members.

Contracted Services

The Board is ultimately responsible for the Fund's administration, communication and investment activities. To discharge these responsibilities, the Board uses the services of various organizations.

Under agreement with the Board, PEBA provides administrative services for the Fund. PEBA is part of the Ministry of Finance, Government of Saskatchewan, and administers a wide range of pension and benefit plans.

Under agreement with the Board, PEBA:

- provides annuity estimates;
- calculates annuity and death benefits;
- prepares statements upon a member's death;
- accounts for all investment transactions; and
- provides executive management services to the Board.

PEBA is responsible for ensuring that all transactions are made in accordance with *The Saskatchewan Pension Annuity Fund Act*, *The Pension Benefits Act, 1992*, and their related regulations.

The Board retains RBC Investor & Treasury Services as the Plan custodian and Aon Hewitt Inc. as the investment consultant. The Board also retains Greystone Managed Investments Inc. as the investment manager and Aon Hewitt Inc. as the actuary.

Purpose

The purpose of the Fund is to provide annuity payments to pensioners who have chosen to purchase annuities through the Fund.

Mission

The Board's mission as the Fund's trustee is to manage the assets and expenses solely in the best interests of the pensioners and their beneficiaries.

Operational Goals and Objectives for the Administration of the Fund

At its meeting of June 22, 2015, the Board approved operational goals and objectives for the administration of the Fund for the year ended March 31, 2016. The operational goals and objectives are aligned with the Board's core functions of overseeing the administration of the Fund and providing excellent service to annuitants and their beneficiaries.

The initiatives used to support these goals and objectives are not generally time-bound. Rather, they are initiatives that are required to be undertaken on an ongoing basis.

The following section provides information on activities planned and accomplished during the year ended March 31, 2016, in support of the Board's operational goals and objectives.

Operational Goals and Objectives for the Administration of the Fund

Goal 1: Financial Management

The Board provides sound financial management of the Fund.

Objectives

- The Board ensures the assets of the Fund are invested appropriately by reviewing the Fund's Statement of Investment Policies and Goals (SIP&G) annually.
    - The Board reviewed and approved the Fund's SIP&G on June 22, 2015.
- **The Board carries out an actuarial valuation of the Fund at least every three years.**
    - The Board reviewed the actuarial valuation of the Fund as at March 31, 2015 on June 22, 2015.
- The Board annually reviews and approves the operating budget for the Fund and monitors it quarterly.
    - The Board received quarterly budget updates throughout 2015-2016.
    - The Board approved the operating budget for the Fund for the year ending March 31, 2017, on March 30, 2016.

Goal 2: Service Delivery and Communications

The Board provides excellent service to the annuitants of the Saskatchewan Pension Annuity Fund.

Objectives

- The Board administers the Fund in compliance with *The Saskatchewan Pension Annuity Fund Act* and the *Income Tax Act* (Canada).
    - The Board reviewed the audit of the Fund for the 2014-2015 year provided by the Provincial Auditor Saskatchewan (PAS) on June 22, 2015. The PAS issued an unqualified opinion regarding legislative compliance.
- Annuitants have access to the information they require.
    - Annuitants have access to a comprehensive range of information about the Fund, the Board, Fund governance, Fund provisions, and investments on the SPAF website.
    - **The Plan's website is reviewed regularly and items are added or amended as required.**
    - Annuitants can call to speak with SPAF administration to receive answers for any questions they have.
- The Board tables an annual report for the Fund in accordance with *The Executive Government Administration Act*.
    - The SPAF Annual Report for the year ended March 31, 2015, was tabled in the Legislative Assembly on July 23, 2015.

Goal 3: Performance Measurement

The Board evaluates the performance of the Plan's service providers.

Objectives

- The Board reviews the performance of the Fund's investment manager two times a year, including compliance with the Fund's SIP&G.
    - The Board received the investment performance review and investment manager evaluation on June 22, 2015 and November 25, 2015.
- The Board evaluates the performance of the Fund's investment consultant, actuary, and custodian.
    - The Board received an evaluation of the performance of the investment consultant on June 22, 2015, and on March 30, 2016;
    - The Board received an evaluation of the performance of the actuary on June 22, 2015; and
    - The Board received an evaluation of the performance of the custodian on June 22, 2015, and on March 30, 2016.
- Administration performance is reported to the Board on a quarterly basis.
    - The Board received reports on the administration of the Plan on a quarterly basis throughout 2015-16.

Risk Management

Within its mandate the Board is responsible for identifying risks that could negatively affect the operation of SPAF, the Fund's annuitants, or their beneficiaries.

Annually, the Board conducts a review to identify potential events and trends that may positively or negatively affect the Board's ability to achieve its operational goals or maintain its operations. These events and trends are defined as risks.

> **Risk**
>
> The potential events and trends that may positively or negatively affect the operation of the Plan, the members or other stakeholders of the Plan or the attainment of operational goals.

The Risk Management Plan and its annual review ensure that a regular, documented process is in place for the management of the Fund`s foreseeable risks. Documenting the rationale for arriving at decisions strengthens accountability and demonstrates due diligence.

> **Risk Management Philosophy:**
>
> **The Board is committed to creating and maintaining value for the stakeholders of the plan. The Fund faces risks as the Board fulfills this commitment. Therefore, the Board is responsible for managing all foreseeable risks that could affect the operation of the Fund and its stakeholders. Through its risk management process, the Board identifies, measures, monitors and manages these risks in a manner that is consistent with its mandate to administer the Fund.**

In order to assist in the identification and assessment of all foreseeable risks to the Fund, the Board has identified the following key broad-based risks to the Fund:

- **Strategic Risk** is the risk of failing to meet strategic, business and operational goals and objectives. The Board's Business Plan and operational goals and objectives document the goals of the Board as related to service delivery, communications, governance, accountability, and risk management.
- **Financial Risk** derives from the investment of the Fund's assets, Fund costs, or from fraudulent activity on the part of the Board or its service providers.
- **Operational Risk** is related to the performance of the Board's service providers in the operation of the Fund.
- **Regulatory Risk** arises from non-compliance with legislation, fiduciary obligations and the legal requirements of pension plan management.

The Board believes that these broad-based risks are interrelated. The Board thus recognizes that it must retain a balanced approach in the management of all four types of risk.

Risk Management

The Board manages the identified risks to the Fund by employing a number of strategies. These strategies include the following:

- Annually reviewing the Fund's Statement of Investment Policies and Goals (SIP&G);
- Retaining service providers to conduct independent monitoring of the compliance of the Fund's investment manager with the SIP&G;
- Establishing and monitoring performance measures and benchmarks for investment and administration service providers;
- Setting and monitoring annual budgets for the administration of the Fund;
- Annually reviewing the performance of all service providers;
- Ensuring that all service providers maintain business continuation plans to ensure the continuation of service to annuitants in the event of a disaster;
- Maintaining a training and development policy for Board members; and
- Retaining service providers who are experts in the responsibilities to which they are assigned with respect to the Fund.

The Risk Management Plan is a systematic and integrated approach to risk management. It focuses on the importance of risk communication and risk tolerance. It emphasizes the importance of people and leadership and the need to consider risk management at every level of operation.

As it is important to monitor and reassess the risks of the Fund regularly, the Board approved the 2015-2016 Risk Management Plan on June 22, 2015.

Annuity Fund

Investment of Funds

The Board is responsible for holding in trust and investing the monies in the Fund. The Board has retained Greystone Managed Investments Inc. as its investment manager.

Greystone Managed Investments Inc. continues to manage an immunized bond portfolio (see objectives below).

The investment manager makes day-to-day decisions of whether to buy or sell specific investments in order to achieve the long-term investment performance objectives set by the Board. It is these long-term investment performance objectives that the Board uses to assess the performance of the investment managers.

The investment objectives are:

- to immunize the Fund's net position from changes in interest rates, through the structuring of the investment portfolio;
- to provide sufficient liquidity to ensure payment to retired members when due; and
- to ensure long-run solvency.

To achieve those objectives, the assets of the Fund should be invested so that:

- the duration of the investment portfolio is matched with the duration of the liabilities on an ongoing basis. The matching should fall within a band of -0.5 to +0.5 years of the duration target;
- the portfolio includes sufficient short-term investments to meet liquidity needs; and
- the present value of the asset cash flow stream exceeds the present value of expected liability payments.

The Board has retained RBC Investor Services Ltd. as the custodian of the Fund. The custodian is responsible for custody of all financial assets of the Fund (in the name of the Saskatchewan Pension Annuity Fund). The custodian settles all investment transactions. The custodian also ensures that investment income (i.e., dividends, interest) is collected and provides financial information for all investment transactions.

The Board engages the services of an asset consultant to provide advice on the overall management of the Fund's investments and on the measurement of the Fund's performance. Aon Hewitt Inc. provides this service to the Board.

Fund Administration

The Board has delegated the day-to-day administration of the Fund and management of its assets to PEBA. The cost for this is charged to the Fund.

PEBA is a branch of the Ministry of Finance. PEBA administers a wide range of pension and benefit plans.

Under agreement with the Board, PEBA provides all services required to operate, administer and manage the Fund in a manner consistent with and according to all statutory provisions and regulations that apply to the Fund. PEBA reports measurement against standards to the Board quarterly.

Table 1.2 provides measurement results for the 2015-2016 year.

PEBA also provides Senior Executive Officer services and Executive Secretary services to the Board.

In 2015-2016, the Board paid PEBA $204,000 for administrative services.

Annuities

During the 2015-2016 fiscal year the Fund paid a total of $15,155,000 in annuities to 1,920 members or spouses of members.

Figure 1.1 shows the number of annuitants and beneficiaries receiving survivor benefits in the Fund as of the current year-end.

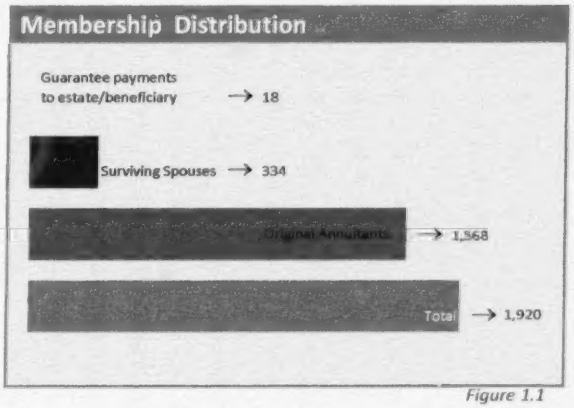


Figure 1.1

PEBA Service Standards April 1, 2015 to March 31, 2016

Task	Completed	Number that Meet or Exceed Standard	% that Meet or Exceed Standard	Standard* (Days)	Statutory Requirement** (Days)
Statement on Retirement	15	10	66.6	5	90
Statement on Death	83	72	86.7	5	90
Payment of Death Benefits	9	8	88.8	5	-
Annuity Estimates for PEPP Members	520	408	78.5	5	-
Spousal Break Down Calculations	0	0	N/A	5	-
Written Correspondence ***	Not measured	Not measured	N/A	5	-
Total	627	498	79.4	-	

* Standard is set within "Schedule A" of the agreement between the Board and PEBA.
** Statutory Requirement is a compliance standard within *The Pension Benefits Act, 1992* and *Regulations, 1993.*
*** The majority of written correspondence is received by Inquiry e-mail. The Inquiry e-mail receipts and responses are monitored daily.

Table 1.2

Management's Report

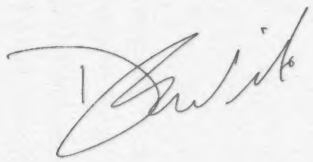
To the Members of the Legislative Assembly of Saskatchewan

The Saskatchewan Pension Annuity Fund Board consists of three people, a Chairman and two other members, each appointed by the Minister. The Board is responsible for financial administration, administration of the funds and management of assets.

The financial statements which follow have been prepared by management in conformity with Canadian accounting standards for pension plans as outlined in the CPA Canada Handbook Section 4600, Pension Plans. For matters not addressed in Section 4600, International Financial Reporting Standards (IFRS) have been followed. Management uses internal controls and exercises its best judgment in order that the financial statements fairly reflect the financial position of the Plan.

The present value of annuities is determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events, which require approval by management.

The financial statements have been audited by the Provincial Auditor whose report follows.



Dave Wild
Associate Deputy Minister
Public Employees Benefits Agency

Regina, Saskatchewan
June 27, 2016

Actuaries' Opinion

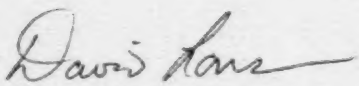
With respect to the Saskatchewan Pension Annuity Fund, I have prepared an actuarial valuation as at March 31, 2016, for the purpose of determining the necessary actuarial information for financial statement reporting purposes in accordance with the Joint Policy Statement of the CIA and the CPA Canada.

In my opinion, for the purpose of this actuarial valuation:

- The membership data on which this valuation is based are sufficient and reliable;
- The assumptions are appropriate; and
- The calculations have been made in accordance with my understanding of the Canadian Institute of Actuaries and the Chartered Professional Accountants of Canada.

This report has been prepared and this actuarial opinion has been given in accordance with accepted actuarial practice.

Nonetheless, emerging experience differing from the assumptions will result in gains or losses which will be revealed in subsequent valuations.



David R. Larsen, FSA, FCIA
Aon Hewitt

April 27, 2016

Saskatchewan Pension Annuity Fund

Financial Statements

Year Ended March 31, 2016

PROVINCIAL AUDITOR
of Saskatchewan

INDEPENDENT AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the Saskatchewan Pension Annuity Fund which comprise the Statement of Financial Position as at March 31, 2016, and the Statement of Changes in Net Assets (Deficit) Available for Benefits, and Statement of Changes in Provision for Annuity Obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans for Treasury Board's approval, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Saskatchewan Pension Annuity Fund as at March 31, 2016, and the changes in its net assets (deficit) available for benefits and changes in its provision for annuity obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Judy Ferguson

Regina, Saskatchewan
June 27, 2016

Judy Ferguson, FCPA, FCA
Provincial Auditor

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Saskatchewan Pension Annuity Fund **Statement 1**
Statement of Financial Position

As At March 31

(in thousands)

	2016	2015
Assets		
Investments (Note 4)		
Short-Term	$ -	$ 10
Bonds and Debentures	156,385	172,089
Investments Under Securities Lending Program	41,730	33,434
	198,115	205,533
Receivables		
Accrued Investment Income	1,838	1,925
Early Retirement Benefits Receivable from Employer	1	1
	1,839	1,926
Due from General Revenue Fund (Note 5)	1,003	290
Total Assets	200,957	207,749
Liabilities		
Administrative Expenses Payable	204	112
Provision for Annuity Obligations (Note 6)	197,557	207,793
Total Liabilities	197,761	207,905
Net Assets (Deficit) Available For Benefits (Statement 2)	$ 3,196	$ (156)

(See accompanying notes to the financial statements)

Saskatchewan Pension Annuity Fund **Statement 2**
Statement of Changes in Net Assets (Deficit) Available for Benefits

Year Ended March 31

	(in thousands)	
	2016	**2015**
Increase in Assets		
Transfers from Designated Plan	$ 7,312	$ 6,858
Interest Income	6,768	6,904
Change in Provision for Annuity Obligations (Note 6)	10,236	-
Change in Fair Value of Investments	-	19,136
Total Increase in Assets	24,316	32,898
Decrease in Assets		
Change in Provision for Annuity Obligations (Note 6)	-	21,825
Annuities	15,155	15,486
Administration (Note 7)	382	390
Change in Fair Value of Investments	5,427	-
Total Decrease in Assets	20,964	37,701
Increase (Decrease) in Net Assets	3,352	(4,803)
Net Assets (Deficit) Available for Benefits, Beginning of Year	(156)	4,647
Net Assets (Deficit) Available for Benefits, End of Year (Statement 1)	$ 3,196	$ (156)

(See accompanying notes to the financial statements)

Saskatchewan Pension Annuity Fund **Statement 3**
Statement of Changes in Provision for Annuity Obligations

Year Ended March 31

(in thousands)

	2016	2015
Provision for Annuity Obligations, Beginning of Year	$ 207,793	$ 185,968
Increase in Provision for Annuity Obligations:		
Interest on Previous Liabilities and Payments	4,807	6,248
Liability for New Annuities Purchased	7,151	6,442
Data Changes	5	-
Change in Mortality Assumption	-	4,003
Change in Discount Rate Assumption	-	20,442
	11,963	37,135
Decrease in Provision for Annuity Obligations:		
Annuity Payments Made	14,640	14,531
Fund Expenses Paid	351	349
Fund Experience Gain	1,493	430
Change in Discount Rate Assumption	5,715	-
	22,199	15,310
Provision for Annuity Obligations, End of Year (Note 6)	$ 197,557	$ 207,793

(See accompanying notes to the financial statements)

Saskatchewan Pension Annuity Fund
Notes to the Financial Statements

March 31, 2016

1. Description of Fund

The Saskatchewan Pension Annuity Fund (Fund) is established under *The Saskatchewan Pension Annuity Fund Act* (Act). The Act establishes the Saskatchewan Pension Annuity Fund Board (Board) to administer the Fund. The day-to-day administration is provided by the Public Employees Benefits Agency (PEBA).

The purpose of the Fund is to provide annuities to members of designated pension plans. Currently, the only designated pension plan is the Public Employees Pension Plan (PEPP). Members of a designated plan may, upon retirement, elect to receive an annuity from the Fund, as an alternative to purchasing an annuity from a private company that issues annuities. Those electing to receive an annuity from the Fund transfer their accumulated contributions and investment income from their designated plan to the Fund at the time of retirement.

Subsection 5(7) of the Act requires any amount by which the liabilities of the Annuity Fund exceed the assets of the Fund to be a charge on, and a payable out of, the General Revenue Fund. As the annuities payable are long-term liabilities, and management does not expect to require funding to meet their current obligations, the Fund has not recorded any amount as a receivable from the General Revenue Fund.

2. Basis of Preparation

a) Statement of Compliance

The financial statements for the year ended March 31, 2016, have been prepared in accordance with Canadian accounting standards for pension plans as outlined in the CPA Canada Handbook Section 4600, *Pension Plans*. For matters not addressed in Section 4600, International Financial Reporting Standards (IFRS) have been followed.

These financial statements were authorized by the Board for issuance on June 27, 2016.

b) Basis of Measurement

The financial statements have been prepared on the historical cost basis except for financial instruments which have been valued at fair value.

c) Functional and Presentation Currency

These financial statements are presented in Canadian dollars, which is the Fund's functional currency, and are rounded to the nearest thousand dollars unless otherwise stated.

3. Significant Accounting Policies

The accounting policies considered significant are as follows:

a) Basis of Accounting

These financial statements are prepared on the going-concern basis and present the aggregate financial position of the Fund as a separate financial reporting entity independent of the sponsor and Fund members. They are prepared to assist Fund members and others in reviewing the activities of the Fund for the fiscal period but they do not portray the funding requirements of the Fund or the benefit security of individual Fund members.

b) Investments

Investments are stated at fair value. The change in the fair value of investments at the beginning and end of each year is reflected in the statement of changes in net assets (deficit) available for benefits as change in fair value of investments.

Fair value of investments is determined as follows:

- Short-term investments are valued at cost which, together with accrued investment income, approximates fair value given the short-term nature of these investments.

- Bonds and debentures are valued at year-end quoted prices from recognized security dealers.

c) Investment Income and Investment Transactions

Investment income is recorded on the accrual basis. Investment transactions are recorded on the trade date.

d) Provision for Annuity Obligations

The provision for annuity obligations represents the present value of the annuities underwritten and is determined pursuant to an annual actuarial valuation.

Any resulting change in the provision for annuity obligations pursuant to the valuation is recognized in the statement of changes in net assets (deficit) available for benefits.

e) Future Accounting Policy Changes

Certain new standards, amendments to standards and interpretations, are not yet effective for the year ended March 31, 2016, and have not been applied in preparing these financial statements. In particular, IFRS 9, Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement, and includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model. The standard is effective for annual periods beginning on or after January 1, 2018. The extent of the impact of adoption of this standard is not known at this time, but is not expected to be material.

f) Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation process is related to the actuarial determination of the provision for annuity obligations (Note 6).

g) Financial Assets and Liabilities

Financial assets classified as held-for-trading are measured at fair value and changes in fair value are recognized in the statement of changes in net assets (deficit) available for benefits. Investments and Due from General Revenue Fund are designated as held-for-trading. For Due from General Revenue Fund, its fair value is determined at cost which approximates market value.

Receivables and administrative expenses payable are measured at amortized cost. Due to their short-term nature, the amortized cost of these instruments approximates their fair value.

4. Investments

The carrying values of the Fund's investments are as follows:

	(in thousands) 2016	2015
Short-term	$ -	$ 10
Bonds and Debentures	156,385	172,089
	$ 156,385	$ 172,099
Investments Under Securities Lending:		
Short-term	390	
Bonds and Debentures	41,340	33,434
	$ 198,115	**$ 205,533**

Short-term Investments

Short-term investments were comprised of treasury bills and notes with effective rates of 0.4 per cent (2015 - 0.5 per cent) and an average remaining term to maturity of 77 days (2015 - 79 days). The Fund's investment policy states that short-term investments must meet a minimum investment standard of "R1" as rated by a recognized credit rating service.

Bonds and Debentures

The Fund's investment policy states that federal and provincial government bonds and debentures must meet a minimum quality standard of BBB as rated by a recognized credit rating service. No more than 15 per cent of the par value of the bond portfolio may be invested in BBB rated bonds. No more than 10 per cent of the market value of the bond portfolio may be invested in corporate bonds. At March 31, 2016, the Fund held 1.87 per cent (2015 - 0.98 per cent) of the market value of bonds and debentures in corporate bonds. The minimum credit rating for corporate bonds is "A" or equivalent as rated by a recognized credit rating service. See Note 8 for information on credit ratings for bonds and debentures held.

2016 (in thousands)

Years to Maturity	Federal	Provincial	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 1	$ 2,454	$ 2,917	$ 1,703	$ 7,074	0.00% - 7.00%	2.88%
1 to 5	2,731	32,287	1,252	36,270	0.00% - 10.50%	2.94%
5 to 10	16,139	31,313	751	48,203	0.00% - 9.92%	4.28%
Over 10	12,743	93,435	-	106,178	0.00% - 8.00%	3.07%
Market Value	$ 34,067	$159,952	$ 3,706	$ 197,725		

2015 (in thousands)

Years to Maturity	Federal	Provincial	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 1	$ 2,148	$ 5,697	$ -	$ 7,845	0.00% - 11.25%	4.25%
1 to 5	7,015	31,062	1,217	39,294	0.00% - 10.00%	3.04%
5 to 10	15,780	27,994	790	44,564	0.00% - 10.50%	3.95%
Over 10	14,680	99,140	-	113,820	0.00% - 8.50%	3.15%
Market Value	$ 39,623	$163,893	$ 2,007	$ 205,523		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Fair Value

The Fund has classified its required fair-valued financial instrument holdings using a hierarchy that reflects the significance of the inputs used in determining their measurements.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments valued using inputs that are not based on observable market data are classified as Level 3.

The following tables classify the Fund's required financial instruments within a fair value hierarchy:

	2016 (in thousands)			
	Level 1	**Level 2**	**Level 3**	**Total**
Bonds and Debentures	$ -	$197,725	$ -	$197,725
Short-term	-	390	-	390
Total	$ -	$198,115	$ -	$198,115

	2015 (in thousands)			
	Level 1	**Level 2**	**Level 3**	**Total**
Bonds and Debentures	$ -	$205,523	$ -	$205,523
Short-term	-	10	-	10
Total	$ -	$205,533	$ -	$205,533

5. Due from General Revenue Fund

The Fund's bank accounts are included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Fund's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis to the Fund's bank accounts using the Government's thirty-day borrowing rate and the Fund's bank account balance. The Government's average thirty-day borrowing rate for the current year was 0.60 per cent (2015 – 0.92 per cent).

6. Provision for Annuity Obligations

The actuarial present value of the provision for annuity obligations was determined using the administrator's best estimate of future investment performance and inflation. An actuarial valuation was performed as at March 31, 2016, by Aon Hewitt Inc. (the next valuation will be required effective March 31, 2017). The assumptions used in determining the actuarial present value of annuities payable were:

	2016	**2015**
Discount rate	2.70%	2.40%
Mortality table	CPM 2014 Private with size adjustment factors	CPM 2014 Private with size adjustment factors
Expense allowance	2.4% of annuities payable	2.4% of annuities payable

Actual results may vary significantly from the assumptions used. It is reasonably possible, based on existing assumptions, that change in future conditions in the near term could require a material change in the annuity obligations. A one per cent increase in the discount rate would decrease the obligations $17.2 million (2015 - $18.7 million) and a one per cent decrease in the discount rate would increase the obligations $20.2 million (2015 - $22.1 million).

The expected cash inflows from investment income and disposal of investments at maturity and the expected cash outflows to pay the annuities and administration expenses are calculated using the previously referenced assumptions. The expected net cash flows are based on actual dollar forecasts without any provision for inflation and they do not allow for future annuitants. The estimated net cash inflows/(outflows) for the next five years are ($0.30) million, for the next 10 years ($1.52) million and for the next 30 years $6.82 million. The expected duration for investments is 9.51 years and for the provision for annuity obligations is 9.41 years.

7. Administration Expenses

(in thousands)

	2016		2015	
	Budget	Actual	Budget	Actual
Administration Costs	$ 235	$ 226	$ 304	$ 187
Custodial Fees - RBC Dexia Investment Services Trust	5	4	6	10
Investment Management Fees – Greystone Managed Investments Inc.	156	152	159	193
	$ 396	$ 382	$ 469	$ 390

8. Financial Risk Management

The nature of the Fund's operations results in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (interest rate risk) and liquidity risk.

Significant financial risks are related to the Fund's investments. These financial risks are managed by having an investment policy, which is approved annually by the Board. The investment policy provides guidelines to the Fund's investment managers for the asset mix of the portfolio regarding quality and quantity of investments. The asset mix helps to reduce the impact of market-value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Board reviews regular compliance reports from its investment managers as to their compliance with the investment policy. The Board also reviews regular compliance reports from its custodian as to the investment managers' compliance with the investment policy.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Fund's credit risk arises primarily from two distinct sources: accounts receivable and investments. The maximum credit risk to which it is exposed at March 31, 2016, is limited to the carrying value of the financial assets summarized as follows:

	(in thousands)	
	2016	**2015**
Receivables	$ 1,839	$ 1,926
Investments	198,115	205,533
Due from General Revenue Fund	1,003	290

Accounts receivable are primarily made up of accrued investment income. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually.

Credit risk within investments is related to short-term investments, bonds and debentures. It is managed through the investment policy that limits fixed-term investments to those of high credit quality (minimum rating for bonds, BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit rating for bonds and debentures are as follows:

	(in thousands)			
	2016		**2015**	
Credit Rating	**Fair Value**	**Makeup of Portfolio (%)**	**Fair Value**	**Makeup of Portfolio (%)**
AAA	$ 49,452	25.01%	$ 55,645	27.08%
AA	104,878	53.04%	104,599	50.89%
A	43,395	21.95%	45,279	22.03%
	$ 197,725	100.00%	$ 205,523	100.00%

Within bond and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 0.63 per cent of the market value of the combined bonds and debentures and short-term investment portfolios. No one holding of a province is over 5.59 per cent of the market value of the investment portfolio.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates and foreign exchange rates. Market risk primarily impacts the value of investments.

Interest rate risk

The Fund is exposed to changes in interest rates in its fixed income investments, consisting of short-term investments and bonds and debentures. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this

measure, it is estimated that a 100 basis point change in interest rates would change net assets by $18.4 million at March 31, 2016 (2015 - $19.2 million); representing 9.27 per cent of the $198.1 million fair value of fixed income investments.

Securities collateral

At March 31, 2016, no Fund assets have been deposited or pledged as collateral or margin. As part of the Fund's securities lending strategy, collateral has been pledged to the Fund by various counterparties for securities out on loan to the counterparties. At March 31, 2016, the total amount of collateral pledged to the Fund amounted to $43.8 million (2015 - $35.1 million).

Security lending obtains collateral of at least 105 per cent of the market value of the securities lent. Such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and banker's acceptances of Canadian chartered banks.

Liquidity risk

Liquidity risk is the risk that the Fund is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows.

9. Related Party Transactions

All Government of Saskatchewan agencies such as ministries, corporations, boards and commissions are related since all are controlled by the Government. Also, the Fund is related to non-Crown enterprises that the Government jointly controls or significantly influences. These financial statements include expenses associated with administering the Fund and are paid to the PEBA Revolving Fund. Related party transactions with the Fund are in the normal course of operations and are recorded at exchange amounts agreed to by the parties to the transactions.

The Fund holds $999,036 (2015 - $991,408) Province of Saskatchewan Bonds and Debentures with a yield of 0.51 per cent (2015 - 0.74 per cent). Investment income including change in the market value of $7,628 (2015 - $21,438) was recorded from the Province of Saskatchewan Bonds and Debentures.

At year-end, the Fund has an accounts payable to the PEBA Revolving Fund of $32,560 (2015 - $17,149).

Section 47.5 of the *Superannuation (Supplementary Provisions) Act* authorizes employers to provide early retirement benefits to eligible employees. The Fund pays these early retirement benefits to retired members of the Public Employees Pension Plan on behalf of employers. During the year, the Fund provided early retirement benefits of $4,100 and received $4,100 reimbursement from the employer. These transactions are included in the statement of changes in net assets (deficit) available for benefits under annuities.

Other transactions with related parties and amounts due to or from them are described separately in the financial statements and notes.

10. Capital Management

The Fund receives new capital from PEPP members transferring to the Fund. The Fund also benefits from income and market-value increase on its invested capital. The Fund's capital is invested in long-term bonds and short-term instruments. The Minister has delegated the operational investment decisions to Greystone Managed Investments Inc. as defined in the Fund's Statement of Investment Policy and Procedures.